

Message Text

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E.O. 11652: N/A

TAGS: ECON EGEN EFIN EINV SF

SUBJ: SA RESERVE BANK ANNUAL REPORT

1. BEGIN UNCLASSIFIED. SUMMARY. IN ANNUAL STATEMENT, GOVERNOR OF SOUTH AFRICAN RESERVE BANK ANNOUNCED THAT ALTHOUGH GDP SHOWED MODEST RISE, GNP DECLINED BY 0.5 PERCENT IN YEAR JULY 1975-JUNE 1976 IN BACKWASH OF RECESSION IN U.S. AND EUROPE. STATED RECOVERY WILL BE GRADUAL AND WILL HAVE TO BE EXPORT-LED. IMPROVING BALANCE OF PAYMENTS TAKES FIRST PRIORITY AND EXPANSIONARY DOMESTIC POLICIES PRECLUDED IN SHORT-TERM. GOVERNMENT DEFICIT SPENDING HAS BEEN MAJOR FACTOR IN BALANCE OF PAYMENTS DEFICIT AND MUST BE REDUCED. END SUMMARY.

2. SOUTH AFRICAN RESERVE BANK GOVERNOR DE JONGH PRESENTED BANK'S ANNUAL REPORT FOR YEAR ENDING JUNE 30, 1976 TO
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ANNUAL STOCKHOLDERS' MEETING AUG. 24. IN HIS

ADDRESS TO MEETING, DE JONGH PRESENTED SOBERING PICTURE OF COUNTRY FACED WITH BOTH A MAJOR ECONOMIC SLUMP AND A SERIOUS BALANCE OF PAYMENTS DEFICIT. WHILE RECESSION HAS NOT REACHED LEVELS OF 1974-75 RECESSION IN U.S. AND EUROPE, IT MOST SERIOUS ECONOMIC DECLINE FOR SOUTH AFRICA IN POST-WAR PERIOD. REPORT STATES GDP INCREASED IN REAL TERMS BY 2.5 PERCENT IN FY 75/76 COMPARED TO 5 PERCENT IN FY 1974/75. DUE TO DETERIORATION IN SOUTH AFRICA'S TERMS OF TRADE, REAL GNP REGISTERED A DECLINE OF 0.5 PERCENT COMPARED TO 2.5 PERCENT GROWTH PREVIOUS YEAR.

3. IN VIEW CURRENT SITUATION, DE JOHGH STRESSED THAT EFFORTS TO IMPROVE SOUTH AFRICA'S BALANCE OF PAYMENTS POSITION MUST TAKE FIRST PRIORITY AND RESTRICTIVE MONETARY AND FISCAL POLICIES CONTINUED. GREATER FISCAL RESTRAINT IN PARTICULAR IS NEEDED. IN MAKING POINT THAT GERNERAL ECONOMIC RECOVERY CAN ONLY FOLLOW AFTER IMPROVEMENT IN BALANCE OF PAYMENTS, DE JOHGH NOTED "ONLY ECONOMIC RECOVERY WE CAN AFFORD IS AN EXPORT-LED RECOVERY." FOR SHORT-TERM HE PREDICTED DIFFICULT PERIOD OF ADJUSTMENT STILL LIES AHEAD FOR ECONOMY. DE JOHGH FORESAW GRADUAL IMPROVEMENT IN BALANCE OF PAYMENTS IN SECOND HALF OF 1976 AND IN 1977 AS RESULT OF (1) RECOVERY OF SA'S MAJOR OVERSEAS COMMODITY MARKETS, (2) EFFECT OF CURENT RESTRICTIVE FISCAL AND MONETARY POLICIES INCLUDING IMPORT DEPOSIT SCHEME, (3) DELAYED EFFECTS OF 1975 DEVALUATION AND (4) ABSENCE OF ONE-TIME IMPORT PRESSURES WHICH OCCURRED IN FY 75/76, E.G. INTRODUCTION OF TELEVISION.

4. WHILE ACKNOWLEDGING ROLE OF EXTERNAL FACTORS SUCH AS DECLINE IN GOLD PRICE AND SLOW RECOVERY OF OVERSEAS COMMODITY MARKETS IN LARGE INCREASE IN SA'S BALANCE OF PAYMENTS DEFICIT (R1,953 MILLION ON CURRENT ACCOUNT COMPARED TO 1,592 IN FY 74/75), DE JOHGH EMPHASIZED ROLE OF HIGH LEVEL OF GOVERNMENT DEFICIT SPENDING AS MAJOR DOMESTIC FACTOR INFLUENCING LIMITED OFFICIAL USE

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BALANCE OF PAYMENTS DETERIORATION FURING FY 75/76. GOVERNMENT CONSUMPTION EXPENDITURE LED BY ACCELERATED DEFENSE SPENDING, INCREASED IN REAL TERMS BY 15.5 PERCENT IN FY 75/76 WHILE REAL PRIVATE EXPENDITURE WAS UP ONLY 3.5 PERCENT. GOV'T DEFICIT (EXCLUDING BORROWING) INCREASED FROM R1,187 MILLION IN FY 74/75 TO R1,787 MILLION IN FY 75/76. LONG-TERM FOREIGN LOANS OF GOVERNMENT CORPORATIONS TOTALED R804

MILLION IN 1975/76 AND MORE THAN 70 PERCENT OF THE R1,435 INCREASE IN MONEY AND NEAR-MONEY SUPPLY DUE TO CLAIMS OF BANKING SECTOR ON GOVERNMENT. DE JOHGH WARNED THAT SUCCESS OF SHORT-TERM ECONOMIC STRATEGY DEPENDS IN LARGE MEASURE ON EXTENT TO WHICH GOVERNMENT ABLE TO KEEP WITHIN ITS BUDGETS AND LIMIT USE OF BANK CREDITS. HE ADDED IT WAS ONLY PRESENT TO EXPECT DECLINE IN NET INFLOW OF LONG-TERM FOREIGN CAPITAL TO BOTH GOVERNMENT AND PRIVATE SECTORS. END UNCLASSIFIED.

5. BEGIN LIMITED OFFICIAL USE. COMMENT. REPORT FAILS TO REVEAL DATA ON TAPERING OFF OF CAPITAL INFLOWS ARISING FROM POLITICAL UNCERTAINTY AND DOMESTIC UNREST BECAUSE QUARTERLY BREAKDOWNS NOT GIVEN AND GOV'DSBORROWINGS FOR CAPITAL PROJECTS REMAIN HIGH. THIS IS OBVIOUSLY A WORRISOME FACTOR FOR FUTURE, AS REFLECTED BY COMMENTS TO US BY DEPUTY GOVERNOR DE KOCK WHILE WRITING DRAFT OF DE JONGH'S SPEECH.

6. DE KOCK INDICATED SA LOOKING TOWARD FIRMER PRICES FOR MINERAL EXPORTS AND COMPLETION OF MAJOR PROJECTS TO RELIEVE SITUATION IN 1977. HE SEEMED CONFIDENT THAT TIGHT DOMESTIC POLICY, IMPORT DEPOSIT SCHEME, ETC., WOULD HAVE DESIRED EFFECT OF RESTRAINING IMPORTS. HOWEVER, JULY TRADE FIGURES JUST RELEASED SHOWS RECORD DEFICIT OF R292 MILLION (IMPORTS OF R648 MILLION EXCLUDING OIL AND DEFENSE MATERIALS AND EXPORTS OF R356 MILLION EXCLUDING GOLD BULLION BUT INCLUDING GOLD COIN), COMPARED TO DEFICITS OF R212 MILLION IN MAY AND R139 MILLION IN JUNE. SEVERAL SPECIAL FACTORS LIMITED OFFICIAL USE

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WERE CITED, INCLUDING SURGE IN IMPORTS TO BEAT IMPOSITION OF IMPORT DEPOSIT SCHEME AND COMMERCIAL AIRCRAFT DELIVERIES. EFFECT IS, HOWEVER, BLOW TO IMPORT-CURBING PROGRAM NOW SUPPOSED TO BE IN HIGH GEAR.

7. EVEN IF NO FURTHER DROP IN GOLD PRICE OCCURS, NOW SEEMS UNLIKELY THAT DOMESTIC RESTRAINT CAN BE LIFTED FOR LENGTHY PERIOD. TO DATE, BURDEN OF DOMESTIC RECESSION HAS FALLEN LARGELY ON BLACKS AND GOV'T MUST BE AWARE THAT ITS PROLONGATION, WITH ATTENDANT UNEMPLOYMENT, IS LIKELY TO ADD TO UNREST. WHILE FURTHER 13-14 PERCENT DEVALUATION NOT BEING RULED OUT, IT WOULD RAISE INFLATIONARY PRESSURES WHICH GOV'T MUST ALSO WEIGH IN TERMS OF

BLACK REACTIONS. GOV'T SUDDENLY ANNOUNCED 25
PERCENT RISE IN RETAIL PRICE OF BREAD, WHICH WILL
BE FELT PARTICULARLY BY BLACKS. SENIOR GOV'T OFFICIAL
TOLD AMBASSADOR R121 MILLION BREAD SUBSIDY HAD BECOME
UNTENABLE IN CURRENT SITUATION AND PRICE RISE WILL
STILL LEAVE R78 MILLION SUBSIDY. END COMMENT.
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BOWDLER

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